

**A comparative study on perception of Omani customers and expatriates on banking services using PZB's SERVQUAL MODEL with reference to Bank Muscat**

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**ABSTRACT**

*The objective of this study is to evaluate the customer perception towards retail banking sector services in Sultanate of Oman. It is an exploratory study conducted to find out the most important factors that are affecting service quality and consumer perception of both Omani nationals and expatriates. A sample of 200 banking customers was drawn from bank Muscat in various branches of Nizwa city. The SERVQUAL model developed by Parasuram, Zeithmal and Berry, was used to develop the questionnaire and from the model all five dimensions (i.e. tangibility, responsibility, reliability, assurance and empathy) were used to elicit the information on customer perception on banking services. The study resulted in no perceptual differences among the Omanis and expats on banking services mostly, at the same time there are few differences of opinions among these two categories of customers. This study suggests that SERVQUAL is a suitable instrument for measuring service quality in the retail banking sector in Sultanate of Oman. Hence, banking industry practitioners, researcher scholars and students can consider this instrument as a tool to assess and improve the service quality.*

*Keywords: SERVQUAL, Service quality, Customer perception, Banking industry, Sultanate of Oman, Expatriates, Omanis, Nizwa, and Bank Muscat.*

**Introduction:**

The banking industry is the blood vascular system of in an economy. It has a positive role to play in the economic development of the country as repositories of people's savings and purveyors of credit, especially as the success of economic development depends on the mobilization of resources and their investment in an appropriate manner. The banking sector is the backbone of any financial system of the economy. Commercial banks play an important role in the development of developing economies by mobilization of resources and their better allocation. In the light of liberalization, privatization and globalization a lot of challenges were faced by the commercial banks. In the post-nationalization period, the proportions of rural areas in total number of bank branches as well as in credit deployment and deposit mobilization have been declined. On the other hand, the metropolitan areas registered a high increase in their percentage share in total expansion, credit deployment and deposit mobilization. Therefore, in the post nationalization era, the performance of the banking system with respect to branch expansion in the rural and till then unbanked areas, mobilization of deposits, deployment of credit, population coverage and so on has indeed been creditable and perhaps has no parallel in the annals of banking elsewhere.

**Banking in Sultanate of Oman:**

From just three registered banks with about as many branches in 1972 to 17 commercial banks in 2010, the banking sector in Oman has developed by leaps and bounds. The history and development of the banking sector in Oman has moved in tandem with the socio-economic development of the country. The last four decades has been witness to a phenomenal growth in the banking industry in Oman. The advent of the new era in Oman and the requirements of a new nation necessitated the involvement and cooperation of banks. In 1972, there were just three registered banks in the country

with about as many branches. In the 40th year of the reign of His Majesty Sultan Qaboos bin Said, there are 17 commercial banks in Oman. Of these, seven are incorporated locally and ten are branches of foreign banks. In 1973, National Bank of Oman was founded as the first local bank in the country and three years later Commercial Bank of Oman was established. The seventies also saw the setting up of three specialized development banks: Oman Housing Bank, Development Bank of Oman, and Oman Bank for Agriculture and Fisheries. The last two banks merged to become the present Oman Development Bank. The eighties saw the setting up of the Oman Overseas Trust Bank followed by Oman International Bank, the first wholly owned Omani bank. Oman Arab Bank too was established in the eighties after acquiring the branches of Arab Bank. The nineties was a period of consolidation in the banking industry in Oman and saw several mergers. Oman Overseas Trust Bank became Bank of Muscat; Al Bank Al Ahli Al Omani merged with Bank of Muscat to become Bank Muscat Al Ahli Al Omani. This merger eventually led to the formation of Bank Muscat at the close of the century. In 1994, Commercial Bank merged with Oman Banking Corporation, then with Oman Savings & Finance Bank and a year later with the Bank of Oman Bahrain and Kuwait. Commercial Bank was absorbed by Bank Muscat in 2000. The nineties also saw the setting up of Alliance Housing Bank - the first private sector housing bank in the GCC which has since become Ahli Bank - a full-fledged commercial bank. Two banks - Industrial Bank of Oman and Majan International Bank opened for business in the last decade. Industrial Bank was absorbed by Bank Muscat and Majan International Bank merged with Bank Dhofar Al Omani Al Fransi - now Bank Dhofar. The last new bank to debut in Oman after a gap of eleven years was Bank Sohar in 2007.

### **Objectives of the study:**

1. To study the customer perception on banking services of Bank Muscat by Omani customers and expatriate customers
2. To analyze the perceptions of Omani customers and expatriates customer towards Bank Muscat services.
3. To suggest the measures to improve the service at bank Muscat.

### **Review of literature:**

1. Sachder and Verma (2004) revealed that in case of banking the perceived performance is below 'would be' level of performance in four of five service dimensions. That is the banking services do not even perform at the adequate level in respect of reliability, responsiveness, assurance and empathy. The standardized Beta co-efficients have provided the following order of importance of service quality dimensions in banking industry as empathy, tangibility, reliability, assurance and responsiveness.
2. Eminbabakus et al. (2003) examined the conceptualization of Management Commitment to Service Quality (MCSQ). The best indicator of MCSQ is empowerment, followed by rewards and training. The training, empowerment and rewards jointly affect the Service Recovery Performance through the mediating roles of employees' job satisfaction and affective organization commitment. The MCSQ exerts a stronger influence on the Service Recovery Performance through affective organisation commitment than through employees' satisfaction.
3. Nazrul Islam and Egaz Ahmed (2005) found that the first estimated service quality factor in banks is the performing promises by the employees followed by the personal attention and tangible physical facilities. There is a relationship between the perceived service quality factors and the overall quality of the bank. There are significant differences between the service quality of the public and the private banks. The differences are found in physical facilities, appearance of bank employees, services, willingness to help the clients, courteous to the clients and working hours of the bank.
4. Oliver Nerurkar (2000) found that the consumers assigned lower weights to tangibles as compared to reliability, responsiveness and assurance. The weightage given on the service

quality of the commercial banks is reliability. But in the case of insurance, consumers did not distinguish among the five service dimensions in terms of their importance. In the hotel industry, it was found that consumers assigned to reliability a significantly higher weight than assurance and empathy.

5. Mushtag A. Bhat (2005) identified that the poor service quality among the Indian banks is mostly because of deficiency in tangibility and responsiveness. The service quality of Indian banks are perceived different according to the income, age and region of the customers. The banks provide comparatively better service quality to business group customers in comparison to service group customers as they are comparatively small in number with comparatively high level of income as against to service group customers. Different education levels, however do not exhibit greater variation in service quality.
6. Victor Iglesias (2004) found the significant effect of pre conceptions on perceptions during the service encounter. Pre conceptions about the service category distort customer perceptions of the service encounter. The effect of preconceptions on the dimensions of tangibles and reliability are lower. The attribute based processes predominate in evaluating banking, insurance, and financial advisory services. The direct effect may become significant, whereas the mediating role of perceptions sense.
7. Sanjay and Garima Gupta (2004) found that while the SERVPERF scale is more convergent and discriminant valid explanation of the service construct, possesses greater power to explain variations in the overall service quality scores, and is also a more parsimonious data collection instrument. It is the SERVQUAL scale which entails superior diagnostic power to pinpoint areas for managerial intervention.
8. Bharati Pathak (2003) identified that Housing Development Finance Corporation emerged as a leader in the financial performance of the banks doing 1995-96 to 2000-01. Its closest competitor was the ICICI bank. The performance of the other three banks namely the Industrial Bank, the Centurion Bank and the UTI Bank, lagged behind them, but it was, by no means, depressing. These banks, obviously, have to focus more on improving parameters like credit quality and cost control for them to emerge as the top performers.
9. Robert Johnson (1995) identified important determinants of service quality in commercial banks. These are integrity, commitment, aesthetics and cleanliness. For the personal customers of bank, the main sources of satisfaction are attentiveness, responsiveness, care and friendliness whereas the sources of dissatisfaction are integrity, reliability, responsiveness, availability and functionality.
10. Hasanbanu (2004) revealed that the customers expect speed, courtesy and concern from bank. The system followed in banks needs a review for simplifying the various forms and proceeding for sanctioning loans. The important estimated services in the rural banks are courteous service, bank premises, prompt service, accuracy and introduction and payment on term deposits.

### **Methodology:**

It is an exploratory study conducted to understand the perceptions of Omani customers and expat customers of Bank Muscat. A Non probability sampling is considered for the present study in which convenient sampling method was initiated. Sample size of 200 customers of Bank Muscat was considered for collecting the data. Survey method has been adopted by using a structured undisguised questionnaire as an instrument for collecting the information from respondents; The questionnaire developed for this study was based on a SERVQUAL model that identified the influence of five dimensions (i.e. tangibility, responsibility, reliability, assurance and empathy) in banking service environments on customer satisfaction with the help of five point Likert scale ranging from strongly disagree to strongly agree.

**Analysis:**

In the present study the independent t-test is used to identify the significance difference between the means of Omani customer and expats as the independent t-test is an inferential statistical test that determines whether there is a statistically significant difference between the two means groups. The total of 200 sample size was taken to conduct the study which consists of 100 Omani customers and 100 expatriate customers of Bank Muscat

**Hypotheses testing:**

**H<sub>0</sub> 1: There is no significant difference between perception on ‘Reliability’ of Omani customers and expatriates on services of Bank Muscat.**

**Table 1.1 t-Test: Two-Sample Assuming Unequal Variances on Reliability**

	<i>Omanis</i>	<i>Expats</i>
Mean	3.648	3.338
Variance	0.675652525	1.37510707
Observations	100	100
df	177	
t Stat	2.1647329	
P(T<=t) two-tail	0.031747281	

The table 1.1 shows that the mean values of reliability aspect perceived by the Omani customers and expatriates. The mean value of Omanis is 3.648 and expats is 3.338 and the calculate P value is 0.032 which is less than the significant value 0.05. Hence, the null hypothesis (H<sub>01</sub>) is rejected and we can conclude that there is a significant difference between the perception on ‘Reliability’ of Omani customers and expat customers on the services provided by the Bank Muscat.

**H<sub>0</sub> 2: There is no significant difference between perception on ‘Assurance’ of Omani customers and expatriates on services of Bank Muscat.**

**Table 1.2t-Test: Two-Sample Assuming Unequal Variances on Assurance**

	<i>Omanis</i>	<i>Expats</i>
Mean	3.8525	3.7175
Variance	0.727392677	0.791231061
Observations	100	100
df	198	
t Stat	1.095490653	
P(T<=t) two-tail	0.274632467	

The table 1.2 reveals that the mean values of ‘Assurance’ on services perceived by the Omani customers and expatriates. The mean value of Omanis is 3.852 and expats is 3.717 and the calculate P value is 0.27 which is more than the significant value 0.05. Hence, the null hypothesis (H<sub>02</sub>) is retained or accepted and we can conclude that there is no significant difference between the perception on ‘Assurance’ of Omani customers and expat customers on the services provided by the Bank Muscat.

**H<sub>0</sub> 3: There is no significant difference between perception on ‘Tangibility’ of Omani customers and expatriates on services of Bank Muscat.**



**Table 1.3t-Test: Two-Sample Assuming Unequal Variances on Tangibility**

	<i>Omanis</i>	<i>Expats</i>
Mean	3.83	3.93
Variance	0.508686869	0.419292929
Observations	100	100
df	196	
t Stat	-1.0380798	
P(T<=t) two-tail	0.300511848	

The table 1.3 exhibits that the mean values of ‘Tangibility’ on services perceived by the Omani customers and expatriates. As the tangibles in the banks are clearly seen by all the customers equally the perceptions are revealed as under- The mean value of Omanis is 3.83 and expats is 3.93 and the calculate P value is 0.30 and is more than the significant value 0.05. Hence, the null hypothesis ( $H_{03}$ ) is accepted and we can conclude that there is no significant difference between the perception on ‘Tangibility’ of Omani customers and expat customers on the services provided by the Bank Muscat.

**H<sub>0</sub> 4: There is no significant difference between perception on ‘Empathy’ of Omani customers and expatriates on services of Bank Muscat.**

**Table 1.4t-Test: Two-Sample Assuming Unequal Variances on Empathy**

	<i>Omanis</i>	<i>Expats</i>
Mean	3.728	3.236
Variance	0.830319192	1.058084848
Observations	100	100
df	195	
t Stat	3.580285357	
P(T<=t) two-tail	0.000433236	

The table 1.4 discloses that the mean values of ‘Empathy’ on services perceived by the Omani customers and expatriates. As the empathy plays an important role in customer perception of any service to be rendered to the customers, this investigation revealed the facts as under - The mean value of Omanis is 3.72 and expats is 3.23 and the calculate P value is 0.00043 and is much less than the significant value 0.05. Hence, the null hypothesis ( $H_{04}$ ) is rejected and we can conclude that there is a significant difference between the perception on ‘Empathy’ of Omani customers and expat customers on the services provided by the Bank Muscat.

**H<sub>0</sub> 5: There is no significant difference between perception on ‘Tangibility’ of Omani customers and expatriates on services of Bank Muscat.**

**Table 1.5t-Test: Two-Sample Assuming Unequal Variances on Tangibility**

	<i>Omanis</i>	<i>Expats</i>
Mean	3.545	3.315
Variance	1.049722	1.108106
Observations	100	100
df	198	
t Stat	1.565739	
P(T<=t) two-tail	0.119007	

The table 1.5 reveals that the mean values of 'Responsiveness' on services perceived by the Omani customers and expatriates. The mean value of Omanis is 3.545 and expats is 3.315 and the calculate P value is 0.11 which is more than the significant value 0.05. Hence, the null hypothesis ( $H_{05}$ ) is retained or accepted and we can conclude that there is no significant difference between the perception on 'Responsiveness' of Omani customers and expat customers on the services provided by the Bank Muscat.

**Findings:**

1. It has been observed that there is no much difference in the perception on the 'Assurance', 'Tangibility', and 'Responsiveness' aspects of the Muscat bank by both Omani customers as well as expatriates. Most of them have agreed on the statements asked about Bank Muscat in providing various services promptly to the customers.
2. It was also found that the difference in the perceptions among the Omani customers and expatriates. With regard to 'Reliability' and 'Empathy', the expat respondents not much agreed upon and rated the statements as disagreed and the same statements were agreed mostly by the Omani customers.

**Suggestions:**

1. It is suggested to the Bank Muscat that not to show any difference between local Omani customers and expatriates on being reliable towards the expatriates since most of the bank account are also equally held by the expat customers.
2. It is also suggested to the bank that 'Empathy' is one of the major concerns in the banking service sector. Moreover is it much required for the people who have come from different countries on a work permit, expats are also major stakeholder for the banks as their transaction on fund transfer, salaries etc. are done through only banks.

**Conclusion:**

This is an exploratory study to find the factors contributing to customer satisfaction in retail banking. Through this paper the author made an attempt to understand the concept of customer perception in Oman retail banking and to explore the factors which might affect customer perception. In my view, this study is the first attempt to understand the concept of customer perception with regard to services and the factors affecting customer perception in the Oman retail banking through a qualitative approach. The major findings of the study show that customer perception regarding banking service is primarily influenced by different factors—employee responsiveness, appearance of tangibles, empathy towards customers and reliability of services offered and assurance given by employees to customers. The hypothesis testing using t-test has found that there is difference in the aspects of reliability and empathy towards Omani customers and expats whereas, the customer service with regard to assurance, tangibility and responsiveness is same among both Omani and expat customers. If the requirements and the expectations of the expat customers are known clearly, then the Omani retail banks would be able to provide better customer service on all dimensions to both expats and Omani customers. This also necessitates the understanding of the factors contributing to customer perception and bridges the service gaps. It is expected that this study would help to understand customer satisfaction in Oman's retail banking better.

**Scope for further research:**

This particular study can be conducted for the entire branch operations of Bank Muscat and other banks which are operating in Oman. The study can also be conducted by taking two different banks i.e. Public sector and private sector banks in Oman to compare their performance and identify the gaps.

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